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U.S. Postal Regulatory Commission  
901 New York Avenue NW, Suite 2000  
Washington, DC 20268-0001

RE: PAEA 10-Year Review  
Docket RM2017-3  
Order No; 4258

Quad/Graphics is a marketing services provider that helps brand owners market their products, services and content efficiently by using its strong print foundation in combination with other media channels. In our consultative role with our clients we continue to emphasize the positive ROI that is achieved using mail as a key component of marketing. In 2017 Quad/Graphics produced and presented to the USPS over 10 billion mail pieces of all shapes, sizes and postal classes.

Quad/Graphics is concerned about arguments put forth by the commission as well the implications the proposal will have on the mailing industry and the USPS. The PRC proposal of increases from 16-27% plus CPI over 5 years will be devastating to the mailing industry, of which the USPS is a core constituent. The PRC proposal is not in the best interests of the USPS nor of the country as a whole.

The reasoning in Order No. 4258 is putting an emphasis on Objective 5 (to assure adequate revenues) of the Section 3622(b) at the exclusion of, if not the detriment of others. Placing on emphasis on Objective 5 makes Objective 1 (to maximize incentives to reduce costs and increase efficiency) moot. The proposal removes incentives to reduces costs and in the case of the proposal on underwater products disincentivizes reducing costs by keeping higher pricing authority in place as long as the cost coverage is not achieved.

Discussions with our clients and our peers in the industry reveal the impact this ruling will have on mail volumes. As a mail producer, Quad has been focused on maintaining customers use of mail. To do this we help them manage their overall postal spend. This overall spend includes not only postage but the manufacturing and raw materials used to make the mail piece. In 2006, when PAEA was instituted the postage spend for an average advertising piece was 40% of the total spend. Manufacturing and materials evenly split the remaining 60%. Today the portion of postage spend on a 48-page Standard Mail catalog is up to 65% with the



manufacturing costs dropping to 10.2%. This means that while the USPS has had the luxury of being able to increase rates by CPI-U, the rest of the mail supply chain has effectively kept rate increases far below CPI-U.

Mail Service Providers have achieved these efficiencies through a number of methods. Quad achieved efficiencies with an in-depth application of lean manufacturing and bottom up decision making. We reached out to our clients and reviewed their requirements and interest in areas where they would see benefit so as to maximize the impact of their mailing investment. We focused not only on keeping customers in mail, we also focused on making the USPS more efficient through our operations. Quad expanded co-mailing with the goal of minimizing total mailing costs. These processes produce and deliver mail into the USPS where they have the most efficient operations. For flats and parcels we can produce and deliver carrier route mail, and for letters we can produce and deliver mail ready for the Delivery Point Sequencing operation. The PRC has stated on numerous occasions that they are the regulator, not the operator, and cannot force the USPS to improve efficiencies. While that is commendable, if the PRC gives the USPS additional pricing authority, they should ensure that these additional dollars are invested in improving efficiency and service with measurable results.

The PRC proposal would allow the USPS to exceed CPI-U by 3-5% per year. To keep mailers in the mail system the rest of the supply chain would need to find efficiencies to offset this amount just to keep the overall spend on mail by our clients at CPI. Given the amount that these parties have already contributed in the last 10 years to overall increased efficiency, the PRC cannot expect the supply chain to continue to mitigate price changes of the type that would occur under this proposal.

Clients tell us that mailing costs and their growth is tied directly to their business model and their need to meet the marketing budgets each company has established. Cost increases must be offset as they cannot be absorbed by the business. Clients are aware of the manufacturing savings Quad and other Mail Service Providers have achieved in the last 10 years, and tell us that if manufacturers cannot offset postal price increases that exceed CPI they will be forced to reduce mail volumes to keep budgets in line.

It should be noted that the first objective of Congress in the PAEA's section on modern rate regulation was is to maximize incentives to reduce costs and increase efficiencies. This placement is intentional. The USPS has stated that they have done so but that they are reaching a point of limited return. This claim of diminishing returns seems dubious, given the state of flats costs and the inability of the postal



service to effectively measure the impact of operational changes on these costs (2017 ACD Sec. II.B.3.b). However, if the proposal goes through as presented the incentive for the USPS to achieve those efficiencies is lost.

In the PRC proposal there is nothing to help the user of postal services get improvements in service or efficiency for the higher pricing authority that is being proposed. The proposal adds exponential pricing authority for the USPS without addressing service standards. There is not even a requirement that the USPS actually meet current service standards. First of all, this pricing authority should not be exponential in nature. It should not be added to the base but should be determined annually only if the postal service meets the service standards for all product classes of mail as agreed to by the PRC.

The USPS does have a financial challenge when you look at the overall balance sheet. Of the Postal Service's accumulated \$59 billion loss, nearly \$55 billion is due solely to the requirement to prefund its relatively healthy retiree health plan. Congress must step up and eliminate this unneeded prefunding requirement. Asking the owners of today's mail to fund this through additional postage is first of all unfair and second will be devastating to the industry that the USPS needs to be healthy for it's success. While it's Congresses job to address the prefunding issue, the PRC proposal simply shifts the burden onto mailers. And if Congress does act, prices will no longer reflect that new financial reality. Retiree healthcare is currently well funded and Congress should be allowed time to correct the prefunding requirement.

The USPS may have issues with funding large scale projects within the current pricing mechanism however giving them additional pricing authority that will exponentially continue to be part of the pricing authority ad infinitum is not the answer. The USPS, as a government entity, needs to have accountability for funds it needs over and above its day to day operational needs. If the USPS has exceptional circumstances there is a mechanism in Title 39 Section 3622(d)(1)(E) that allows them to submit for additional funds from mailers while at the same time creating additional oversight from the regulator. Use of this flexibility in the current law creates a financing mechanism outside the operational efficiency cap that would (1) require USPS definition of need, (2) allow public input, (3) be limited in scope and timeframe, (4) have defined and measurable goals that the regulator can use to monitor success.

The mailing industry employs 7.5 million people and is responsible for \$1.4 trillion in economic activity. The USPS, the PRC and the mailing industry are partners and should work together in order for the USPS and the industry to succeed. This requires rates that can keep everyone in the mail.



In conclusion, Quad believes that the PRC proposal will create, (1) a reduction in demand for postal products, (2) lead to a significant opportunity for competing media to take an even greater share of the advertising dollar, and (3) eliminate the incentive for the USPS to continue to take costs out of its business and align operations with realities of the mailing industry marketplace.

Sincerely,

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